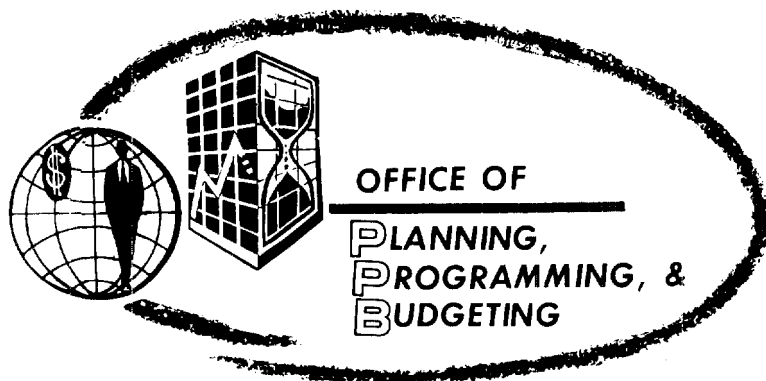


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# AGENCY FINANCIAL RESOURCES MANAGEMENT

**FALL, 1967**

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Report on Agency Accounting and FAN Systems

I. Introduction

The nature of the Agency's mission requires modifications to the application of the accounting responsibilities required of every executive agency by Section 113(a) of the Budget and Accounting Procedures Act of 1950,<sup>1</sup> but the basic principles enumerated by the foregoing Act are followed in the CIA. There is an established system of accounting and internal control which:

- a. Provides disclosure of the financial results of Agency activities;
- b. Provides financial information for management of Agency programs by category and subcategory;
- c. Provides control over and accountability for all funds, property and other assets;
- d. Provides accounting to serve as the basis for preparation and support of budget requests and execution of the Agency's budget; and,
- e. Provides suitable integration of Agency accounting with Treasury Department accounting for the Secretary of the Treasury accounting and reporting responsibilities, as required by the Budget and Accounting Act of 1950.

Accounting, particularly since the advent of modern data processing machines, has become the common language of those who plan, execute and control existing authorized programs, and who appraise results after the program has terminated. Through the Agency's central accounting control, funds control, and budget control, the Director has established a system for the control of money, and the related control of manpower and property, and the foundation for that control rests upon factual accounting

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<sup>1</sup>Accounting in the Federal Government, Kohler-Wright, p. 10.

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data of the immediate past which documents the manner in which these resources were actually utilized in relation to their budgeted or planned use.

Exhibit 1, page 2(a) depicts the flow for the control of Agency funds. The paragraphs which follow describe certain aspects of this flow in more detail. Items covered are the nature of the funds managed by the Agency, the special authorities given the Director by Public Law 110, existing authorization controls, financial accountability in the Agency, the data processing interface with the accounting system, financial reporting, and the organizations responsible for authorization and accountability control.

## II. Funds Managed

If funds are defined as a separate appropriation for a specified purpose, the Agency manages only three funds. These are the regular annual appropriation and associated Reserve, the Construction Appropriation used to construct the Headquarters Building, and the CIA Retirement Fund. The Construction Appropriation appears overtly in the President's Budget. However, the Agency's normal annual appropriation and its associated Reserve are [REDACTED]

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[REDACTED] The primary purpose of the "Reserve" in the Agency's annual appropriation is to provide for extraordinary contingency expenditure needs which were not included in the original budget without the necessity of overtly disclosing these needs by a supplemental appropriation request.

[REDACTED] of [REDACTED] it would be difficult to avoid disclosure of a contingency classified need on a unilateral Agency request basis. The provisions for implementing Sections 8(a) and 8(b) of the Central Intelligence Agency Act of 1949 are (1) "that sums made available to the Agency by appropriation or otherwise could be expended for purposes necessary to carry out its functions regardless of any other provisions of law" and (2) "that expenditures for objects of a confidential, extraordinary or emergency nature could be accounted for solely on the Director's certification and that certification was to be deemed a sufficient voucher for the amount certified."

The CIA Retirement Fund consists of contributions by eligible employees matched by Agency contributions and earnings from the investment of the Fund in Government securities. Other than its non-publication for security reasons, the CIA Retirement Fund is maintained and accounted for as a separate entity in the same manner as several other Government Retirement Funds. The CIA Retirement Fund is included as a separate item in the budget submissions to the Bureau of the Budget, but is not reported in the President's Budget to the Congress.

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Approved For Release 2005/01/27 : CIA-RDP76B00952R000400050001-0

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III. A. Authorization Controls

In Government, as in business, transaction controls provide the administrative means by which an agency head can extend control of expenditures down to a point in his organization where he can reasonably expect to hold his subordinates directly accountable for specific actions. Transaction control begins with the authorization for the transaction or the obligating document. It is not surprising, therefore, that Congress, by the provisions of 31 U.S. Code 665, required the head of each U.S. Government agency to prescribe by regulation a system of administrative control which restricted obligations or expenditures against each appropriation to the amount of apportionments or reapportionments made for that appropriation and fixed responsibility for creation of obligations in excess of an allotment.

To comply with the provisions of 31 U.S. Code 665, the Agency has established an allotment and property requisition authorization system designed to control appropriated funds and other resources and place responsibility for the creation of obligations which would eventually result in a transaction and an expenditure of Government funds. The responsibility for administering the allotment and property requisitioning system is divided between the Director of Planning, Programming, and Budgeting; the Director of Finance; and the allottees at the individual office level.

The Director, PPB issues allotments and property requisitioning authorizations to the operating officials. These allotments and authorizations constitute authority for the allottees to obligate funds and process requisitions, within the amounts stated for approved purposes necessary to carry out assigned functions. Limitations on these allotments and authorizations cannot be exceeded by the allottees without approval by proper authority.

The Director of Finance is responsible for maintaining the official accounting records of the Agency's appropriated funds. These records reflect the allotments and requisitioning authorizations issued by the Director, PPB, obligations, expenditures incurred, encumbrances and issues, and the unobligated balances of allotments and authorizations. In addition to maintaining the accounting records, the Director of Finance is responsible for furnishing each component of the Agency with reports on the status of its funds and property requisitioning authorizations.

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Allottees' responsibility for implementing the Agency's administrative control of appropriated funds consists of:

1. Submission on a fiscal year basis of a single allotment request for vouchered and confidential funds transactions upon receipt of PPB's advice of allocation.
2. Preparation on a daily basis of completed obligation abstract forms and transmittal to Office of Finance.
3. Maintenance of files of obligation documents for both vouchered and confidential transactions as evidence of the validity of obligations reported by abstract for central recording.
4. Review of each obligation status report and other periodic reports for accuracy of data, and the initiation of corrective action as necessary--through Office of Finance.
5. Reporting Property Requisition Authority encumbered monthly to the Office of Finance.
6. Maintaining the integrity of the authorizations by securing necessary amendments and assessing that the limitations are not exceeded.

B. Manpower and Object Class Control

1. Manpower

Personnel services and benefits comprise the second largest group of object class expenditures in the Agency. By monitoring the authorized end-year employment and the average salaries and grades the Director is able to maintain tight control over approximately 38 percent of the total Agency appropriation. In addition to the direct expenditures associated with personnel costs, control of total manpower also improves the effectiveness of control of other costs incurred by the Agency's personnel, e. g. , supplies and services, floor space, travel, etc. Therefore, end-year employment ceilings have historically provided one of the key instruments of control for the Director in his overall task of managing the total resources available for carrying out the Agency mission. Accordingly, each Deputy Director's budget contains approval of not only overall program dollars by budget activity, but also approval for an authorized end-year manpower ceiling.

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2. Object Class Control

In addition to allotment, manpower, and property requisitioning control, levels of control are sometimes imposed on object of expenditures. Object classes prescribed by the Director of the Bureau of the Budget in accordance with the Budget and Accounting Act of 1950 are designed to indicate the nature of the services and supply items acquired as distinguished from the purpose for which such services are utilized. For example, the appropriation acts sometimes contain limitations on the expenditures for travel (object class 21) or personnel compensation (object class 11). However, because basic object classes are so all inclusive, they alone do not provide sufficient data for good control. Thus, sub-object classes such as overtime in personnel services (sub-object class 1168) are used for more precise control. The tendency in recent years has been to move away from the object class type of control and concentrate on the purpose or programs for which resources are utilized because the latter are more meaningful in a managerial sense.

Object class control is used in this Agency to only a limited extent. However, object class financial data is a required accounting mechanism to review and evaluate the actual utilization of resources as the budget is executed. This data becomes the basic building block in the following fiscal year's budget. Object class data also become the detailed budget support of the resource requirements of the various organizational units in the Agency.

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#### IV. Financial Accountability

##### A. General

Accounting as defined by the American Institute of Certified Public Accountants is "the art of recording, classifying and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character and interpreting the results thereof." Thus, accounting begins with the recording of the transaction, either in books of original entry or in the case of a mechanized system, such as the Agency's, the recording of the transaction on a posting voucher. The posting voucher in turn is entered into the machine processed accounting records and Agency's chart of accounts by means of punch cards or paper tape. From this data bank the Agency's financial statements are prepared and become the official records of the Agency for the purpose of maintaining financial accountability. The following paragraphs describe the financial records beginning with the authorizing source documents for transactions, the documentation and certification procedures for financial control of Agency funds, the chart of accounts, and the annual financial statements.

##### B. Source Documents

The source documents necessary for validation and control of transactions are directly related to the transaction cycle and the nature of the services or supplies acquired as a result of this cycle. The transaction cycle consists of an authorized order for supplies or services, their receipt and use, and finally the disbursement of funds (expenditures) in payment for the goods or services received. Obligations and payments for supplies and services received must be arranged into a reasonable and manageable number of groups for financial statistical reporting so the Bureau of the Budget has standardized these groups for all agencies. These standard groups are termed object classes. As indicated above, the source documents are issued to acquire object classes of supplies or services. Therefore, the source documents required to support each part of the transaction cycle can be arranged on the basis of obligation and expenditure by object class of resource acquired thus giving a convenient overview of the operation of the Agency's financial accountability system. Examples of the source documents required for the various object classes of expenditures on the basis of obligation and expenditure authority are as follows:

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<u>No.</u>	<u>Object Class</u>	<u>Documentation</u>	
		<u>Obligation</u>	<u>Disbursement (expenditure)</u>
11	Personnel compensation	Notification of Personnel Action Form 1150 Agency Payroll Register	Time and Attendance Report
21	Travel and transportation of personnel	Travel Order Form 540	Travel Voucher Receipts if expendi- ture is greater than \$15, air line tickets
22	Transportation of things	Copy of Agency Letter--used for shipments in an Agency Contract	Vendor's Billing Shipping Document Form 291
23	Rents, communications, and utilities	Rent or Utility Contracts	Utility Bills
25	Other Services (i.e., storage of household effects	Authorization for Shipment and Accessorial Services Form 1491	Vendor's Billings
26	Supplies and materials	Written Agreement, Contract, Purchase Order, Letter of Intent Memo by Agency Official Negotiating Contract if Security Dictates, Request for Advance Form 281	Receiving Report, Vendor's Invoice, Form 282--Account- ing for Advance Shipping Document Requisition if Supplies Furnished

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C. Documentation, Approval and Financial Certification

25X1 [redacted] The basic Agency policy and general responsibilities for the documentation, approval, and certification of financial transactions involving all funds made available to the Agency are set forth in Headquarters [redacted] and chapter VII of Headquarters [redacted]. The general policies governing documentation, approval and financial certification are as follows:

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1. Documentation

a. Financial transactions are documented in a manner to satisfy legal and regulatory requirements, approving and certifying officers, and generally accepted accounting principles in accordance with operational and security requirements, and the purpose for which the funds are used.

b. All arrangements with other U.S. Government agencies, other governments, private organizations, or individuals to obtain services or property or to furnish services (including personal services) or property are evidenced by a written agreement, contract, purchase order, or letter of intent. When security or operational considerations precludes formal documentation, a memorandum setting forth the terms of verbal agreement is made a matter of record.

c. In a procurement transaction, the Office of Finance is provided a purchase order, billing, and receiving report, as documentary support for the transaction. However, when the receipt of the services or property cannot be evidenced by a receiving report, the approving officer of the component responsible for the agreement certifies by memorandum or on the invoice or other appropriate document that the service has been rendered and the property received.

d. In those cases where the Agency furnishes services or property to others the Office of Finance provides an official billing which specifies: (1) the defense classification to be shown on the billings; (2) the name of the organization to be billed; (3) the requisition, purchase order or memorandum to be cited in the billing document; (4) the total dollar amount to be billed; (5) the cost center to which refund or reimbursement is to be applied and (6) the object class code of the expenditure for which reimbursement is claimed.

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2. Approvals

a. General

As evidence that proper authority exists, approval by a designated approving officer must be obtained for all advances, obligations and expenditures except: (1) where obligations or expenditures are based on contracts executed by a designated contracting officer; (2) for travel vouchers which are within the provisions of a properly authorized written travel order; and (3) salary and wages for personnel covered by personnel actions.

b. Designation

Approving officers are designated at the highest practical level and only persons occupying positions of a supervisory or administrative nature can be designated approving officers.\*

c. Duties

It is the duty of the approving officer to ascertain that the expenditure is: (1) In conformity with Government or Agency regulations; (2) Reasonable in amount; (3) For a necessary official purpose; (4) Incurred in furtherance of the Agency mission; (5) Properly chargeable to, and that funds are available in the project or allocation of funds identified on the voucher or accounting.\*\*

3. Certification

a. General

All claims and vouchers for payments, requests for advances and accountings for advances must be certified by an authorized certifying officer, designated by the Director of Finance, before acceptance for payment or credit.

25X1 [redacted] further defines requirements for  
designating approving officers.

25X1 [redacted] further defines responsibilities  
of approving officers.

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b. Duties

The purpose of certification prior to payment is to ensure that Agency funds are disbursed or expended in accordance with the requirements of Agency and Government regulations. Thus, the combination of approving and certifying officers ensures authorization before the action is taken and approval of the operating transaction after the action before Agency funds are disbursed or expended. Signature of the "authorized certifying officer" on a document evidencing an expenditure of funds certifies that:

- (1) The voucher or accounting has been examined by the certifying officer;
- (2) Receipts or other data substantiating the amount involved have been furnished;
- (3) The data supports the conclusion that the itemized disbursements were necessary for official purposes;
- (4) Reimbursement or payment is allowable under Agency regulations;
- (5) The voucher or accounting has been approved by proper authority; and
- (6) All computations are accurate.

c. Documentary Requirements for Disbursement of Funds

Disbursements of official funds must be supported by the following:

- (1) Documentation authorizing disbursement actions;
- (2) Evidence that funds are available for purpose of the disbursement;
- (3) Appropriate evidence that the disbursement is to be made for the purpose and to whom intended;
- (4) Evidence of receipt of property or service;
- (5) Approval by a designated approving officer; and
- (6) Certification by a designated certifying officer.

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D. Chart of Accounts

1. General

The Agency's Chart of Accounts provides the account classifications used by the Office of Finance for recording financial transactions. As indicated previously, there are three separate funds or accounting entities in the Agency, i.e., the annual appropriated fund for operations, the construction appropriation, and the CIA Retirement and Disability Fund. By far the largest percentage of Agency resources and effort is devoted to the appropriated fund. Accounts classifications in this fund are similar to those of any other Federal Agency and consist of the following types of accounts:

a. Assets

- (1) Cash on Hand and on Deposit
- (2) Appropriation Receivables
- (3) Headquarters advances
- (4) Advances to field station
- (5) Investments
- (6) Property
- (7) Accounts receivable
- (8) Miscellaneous accounts
- (9) Deferred charges

b. Liabilities

- (1) Accounts payable and trust liabilities
- (2) Accountability for advances from other Government agencies
- (3) Accrued Compensation - Field Employees

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- (4) Accountability of Treasury Cashiers
- (5) Deferred Credits
- (6) Project Liquidation Reserve
- (7) Accountability for Agency Retirement Fund
- c. U.S. Government Investment
  - (1) Unexpended appropriations (budgetary accounts)
  - (2) Invested and Donated Capital
  - (3) Income -- Misc. receipts and reimbursements
  - (4) Costs
- d. Memorandum Accounts
  - (1) Retirement Accounts
  - (2) Property accounts
  - (3) Other, e.g., cached funds and commodities

Each account has a four digit account number assigned so as to group the accounts in accordance with the structure of the annual Agency Statement of Financial Condition and thus permit machine preparation of the financial statements. In addition to definitive account classifications, the Office of Finance has a published coding manual which precisely defines the manner in which posting vouchers are to be coded for the entrance into the ADP data bank. The coding, coupled with a machine program for accounting, shortens the recording process and ensures uniformity of accounting data.

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2. Special Features

a. Budget and Cost Accounts

To enable the Director of Finance to comply with his responsibility for maintaining the official accounting records of the Agency's appropriated funds, budgetary accounts in the [ ] series, cost accounts in the [ ] series, and property accounts in the [ ] series, are maintained. In these accounts the allotments and requisitioning authorizations issued are reflected as well as the obligations, expenditures, encumbrances and issues and unobligated balances of allotments. The combination of budgetary, cost, and property accounts enables the Director to ascertain at all times the status of his resources.

b. Commercial vs. Government Accrual Accounting and Costing Procedures

In commercial accrual accounting expenses or costs of producing the product or service are matched with revenues during the applicable operating period or fiscal year. The reason for this procedure is to insure that the net effect of the firm's operation, i. e., its total profit or loss will be faithfully portrayed in terms of the owner's equity at the end of the operating period. Inasmuch as revenue and expense (cost) accounts are temporary accounts which eventually get closed into the proprietorship account it is most important that the expense accounts reflect only true costs of producing income, and the revenue accounts reflect only the income earned during that period. To keep the accounting equation in balance and at the same time properly reflect expense and revenue, prepaid expenses and earned but uncollected income are reflected as assets, and unearned income and accrued expenses are reflected as liabilities. Thus the essence of accrual accounting lies in the decision as to the point of time when costs should be charged and when revenue should be reflected in the accounting records.



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In Governmental accounting (except for those agencies which follow commercial accounting practices such as the Government Corporations) the goods and services procured with an appropriation may be utilized in years other than the year the appropriation was received. However, for managerial efficiency it is important that the total costs of the assets utilized in producing goods or services be known, not only for measuring results in terms of costs during a given period, but also for purposes of future budget projections. Thus the problem in government is somewhat analogous to that of the commercial firm's. Both must make a judgment decision on the point in time when costs should be charged and reflect in their accounting records the true costs of producing goods or services during a specified time period. Therefore, if a given project using inventory was costed on the basis of expenditures rather than use and the inventory level during the life of the project was being increased above the original level, the project's costs would be inflated.

Although costs at the Agency level are recorded primarily on the basis of expenditures, the indirect costing associated with property which is on an issue and use basis would provide the framework for an accrual accounting and cost-based budgeting system if and when it is instituted.

c. Memorandum Accounts

Memorandum accounts are subsidiary type accounts established for managerial purposes and have no effect on the Agency Financial Statements. Examples of such accounts are the Property Authorizations, Unfilled Requisitions, and Property Issues accounts utilized to control the indirect costs associated with the use of property. Each user is issued Property Authorizations annually, and property is costed to the user upon issue. Although the net effect of these accounts upon the Agency's books of account is zero, they do provide a valuable administrative device to control indirect costs on a user basis.

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d. Lapsed Appropriations

Public Law 798 of the 84th Congress provided that the account for each appropriation available for obligation for a definite period of time was to be closed on June 30 of the second full fiscal year following the year the appropriation was originally made available. To provide for liquidation of legitimate obligations after the account was closed, the obligated balance (unliquidated obligations less the amount collectible as repayments to the appropriation) was to be transferred to an appropriation account (on the Treasury records) of the Agency responsible for liquidating outstanding obligations, and all amounts transferred from all appropriation accounts for the same general purpose were to be merged into the above appropriation account. Public Law 798 further prescribed broad accounting procedures for liquidating outstanding obligations applicable to lapsed appropriations.

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E. Adjusting and Closing Entries

At the close of the fiscal year the official accounting records of the Agency are closed in much the same manner as the account of a commercial corporation. The general ledger preclosing trial balance is printed by the Office of Computer Services. After various adjusting and closing entries are recorded, the post closing trial balance and general and subsidiary ledger accounts listings are prepared. Using this data, work sheets are prepared and after various adjusting entries are recorded to identify, classify and summarize specific financial data, the financial statements are prepared.

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Since the Agency is not on an accrued accounting basis, the normal type of revenue and cost apportionment adjusting entries are not made. Accrual accounting means matching costs and revenues in the fiscal period concerned or in the case of government it generally means reflecting costs in the period in which the goods and services are consumed as well as recognizing assets and liabilities at the end of the pertinent fiscal year. In this Agency costs are recognized primarily at the time disbursement is made, e. g., payments for the Payroll and Contractual Services; the general exception is when property is issued. From a practical accounting viewpoint assets and most liabilities are recognized at the end of the fiscal year, but certain accrued liabilities, such as salaries payable for staff personnel are not recognized. Although accrued payroll is not recorded in a liability account for the balance sheet, it is recorded for obligation purposes in the budgetary accounts. On the other hand, financial accountability for property with its provision for costing upon issues and associated reserve feature permits costing to projects when the property is issued. Therefore, the Agency is on a modified accrual accounting basis and it could implement the cost-based budgeting system recommended by the second Hoover Commission in 1956 if it ever became necessary to do so.

F. Annual Financial Report

Part of the definition of accounting is the art of summarizing in a significant manner in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the results thereof. This function of summarizing and interpreting the results of the Agency's financial operation for management is performed by the issuance of the Annual Financial Report. This annual report is issued by the Office of Finance to provide management with a readily available source of comprehensive data for internal and external use, e. g., inventory, costs, program activity, and financing. Available information is portrayed in a concise readable manner. The report is based on the accounting records of the Agency as supplemented by appropriate adjustments made in accordance with standard accounting practices and related budgetary data furnished by the Office of Planning, Programming, and Budgeting.

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The following major sections comprise the Agency's Annual Financial Report:

- Section I - Source and Application of all Funds Available to the Agency (Agency Appropriations and Advances by Other U. S. Government Agencies).
- Section II - Source and Application of Appropriated Funds Available to the Agency -- Included in this Section are obligations by Program and Organizational Units and the Man-Year Effort by Program Activities.
- Section III- Appropriations from Agency Inception (1947) through Current Fiscal Year -- Included is an accounting for available funds on the basis of expenditures, refunds, to Treasury, Unliquidated Obligations, Unobligated Balance Available to Carry Forward for Reserve Purposes and Transfers to succeeding years.
- Section IV- Funds Advanced by Other United States Government Agencies (Primarily these funds were used, employing legal authorities available under Public Law 110, to finance certain sensitive projects, operations, and actions.) An interesting sidelight on these funds is the fact that since FY 1964 they have comprised more than half of the total funds available to the Agency.
- Section V - Financial Condition -- This section contains the Agency's Statement of Financial Condition with supporting schedules on Personal Property, Unexpended Agency Appropriations, and Statements of Changes in United States Government Investment. In addition, an Exhibit in this section gives an explanation of items in the Statement of Financial Condition corresponding to "Notes in a Commercial Balance Sheet" which is probably more informative in terms of the Agency's total mission than any other part of the entire Financial Report.
- Section VI- Central Intelligence Agency Retirement and Disability Fund -- Exhibits in this section reflect the financial condition of the Fund at the end of the fiscal year and income and expense for the preceeding twelve-month period.

V. Data Processing Interface

A. Background - Machine Systems

For processing financial data, the Agency has long used man-machine systems of recognized support capability. Even when the Agency was initially formed in 1947, National Cash Register Bookkeeping Machines were utilized as an aid in the accounting process. By 1951 Punch Cards and Electric Accounting Machines were in use by the Office of Logistics for administrative services. Vouchered fund payrolls were first placed on machines in the latter part of 1951 and by January of 1952 the payroll for both vouchered and confidential funds were processed by this means. By the summer of 1953 financial property accounting and allotment ledger status reporting became an output of the Agency's punch card and EAM installation. Initially all machine accounting was handled by the Office of General Services. However, in February 1954, the machine records division of that organization was transferred to the Office of the Comptroller.

Because of the long experience with man-machine systems, the installation of the RCA 501 computer in October 1960 for payroll and finance operations did not pose too great a problem. In November 1962, an RCA 301 was installed to provide input-output support to the RCA 501 to enhance the capability of the latter machine, and by November 1963, the Automatic Data Processing Division was transferred from the Comptroller's office to the Office of Computer Services to centralize and increase the efficiency of the total CIA automatic data processing operation.

B. Financial Data Systems Improvement

In its continuing effort to furnish as much financial data as possible to meet the needs of management, the Comptroller had been exploring various methods of coding financial transactions from the inception of the Agency's performance budgeting in FY 1953. However, the real impetus for improving the financial coding for better service to management came from Public Law 863 and its requirement for cost-based budgeting and general improvement in financial management in the Federal Government. As a part of the overall financial management improvement effort for FY 1960, a Financial Code Structure Task Group was formed in 1959 to design a code which would meet the financial data requirements for managers. These requirements were: (1) those imposed by law, e. g., allotments, obligations, and expenditures under each appropriation; (2) those imposed by special requests from outside

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the Agency, e. g., Bureau of the Budget and Congressional requests; and (3) those needed for internal management use. Previously the Comptroller's organization had more or less unilaterally determined the coding structure for budget and legal purposes and the coding structure never remained static long enough to build up any history on program and cost information. As a result it was very difficult to analyze previous program performance in terms of resources utilized and impossible to develop cost-based budgeting.

As a part of the Agency's Financial Management Improvement effort of FY 1960, a definite program was undertaken to provide the managers of the various offices with the type of financial data they required for management purposes. The results of the Financial Code Structure Task Force's effort culminated in a revision of the existing 12 digit code to provide multiple use of certain digits to reflect the peculiar requirements of each major component of the Agency. Throughout the Task Force's developmental effort, the budget and finance officers of Plans, Intelligence, and the Support Areas were consulted in the design of the code structure to ensure that the final product would be responsive to the needs of the line managers as well as those of the Comptroller's office. The revised financial codes for FY 1960 solved the problem of IBM card space limitations by providing multiple use of certain fields of information and thus provided managers with program information that was previously obtainable only through analysis and hand tabulation. Although the increased flexibility of the restructured 12 digit code provided a wider range of information, it restricted Agency summary information because of its lack of uniformity, i. e., a digit in a specific column could mean one thing for Plans and something else for Intelligence.

C. RCA 501

Shortly after the Financial Management Improvement effort for FY 1960 was instituted, the Agency took advantage of the rapid technological innovations for financial information handling and processing by installing an RCA 501 computer in early FY 1961. The use of the computer, combined with previous management information and accounting systems design, opened unlimited possibilities for the collection and summarization of financial and program data even though there was a one for one conversion of information processing procedures from the IBM Electronic Accounting Machines to the RCA 501 computer initially in the interest of expediency.

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D. Activities, Financial Analysis and Budget System Task Force\*

The one for one conversion of EAM information processing procedures to electronic data processing procedures, not only inherited the previous system's design weaknesses such as the lack of uniformity in the financial code structure, but it also failed to take advantage of the inherent speed and flexibility of the RCA 501 as compared to the older EAM equipment. Furthermore, during the period from FY 1961 - 1963, BOB and Congress and the demands for financial management improvement dictated by P. L. 863 increased substantially the requirements for data. As a result of the growing demands for financial information and the rigidity of the 12 digit coding structure, it soon became obvious that the Agency's computer system was not capable of furnishing the necessary adequate and timely financial data for management's purposes. This led to the individual offices' maintenance of manual records to secure the necessary data. Manual record keeping was not only poor utilization of manpower which could be put to better use in other more productive tasks, but it also failed to produce information accurately enough and timely enough in the proper context to aid in the decision-making process. Accordingly, a Task Group was appointed in July 1963 to develop a coding system for FY 1965 that would not only fill current requirements but would be flexible enough to meet future requirements. The attainment of a new financial code required a system encompassing the determination of the requirements for financial data; its collection, processing, and timely analytical reporting, and the preparation and evaluation of budgets. Essential to the successful operation of such a system was the use of data processing equipment.

Early in November 1963, the Financial Coding Task Group recommended an "Activities Financial Analysis and Budget System" (Operation AFAB) to accomplish the objective of a flexible financial data coding system. The four phases of operation AFAB were as follows:

1. Phase 1. -- Project AS (Activity Structure)  
The establishment of the Activity Structure.  
This area was begun with the structure utilized in the FY 1964 and 1965 budget preparation and presentation. Financial data for this phase was prepared manually.

\*Note: During the last 3 years discussions and usage of the term "FAN System" has become synonymous with all phases of operation AFAB. Because the numbering system is central to the total AFAB operation, it was natural that when any phase of this operation was discussed the word FAN System was used to describe it. Therefore, the term FAN System is now generally understood, and is being used to cover the entire program and the term AFAB has been dropped

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2. Phase 2. --Project FAN (Financial Analysis Number)  
The development of a mechanism to code and process financial data in a flexible manner. Project FAN became effective with FY 1965. The FAN system permitted managers greater flexibility for changing program classifications of cost centers without interfering with the accounting document flow process. (See para. 5 below for detailed description of the system.)
3. Phase 3. --Project ARM (Analytical Reporting for Managers) became effective for FY 1966. This project was an analytical and timely reporting system geared to serve management needs at the Agency, major component, and operating level. It provided category, sub-category, element, sub-element program information on a country basis at the operating level. This information could then be summarized in various program arrangements for succeeding levels of management. In 1967 Project ARM was expanded to provide target analysis capability in addition to the previous program information provided. A further aid to improved financial reporting in Phase 3 involved the combining of vouchered and confidential fund allotments and the establishment of a uniform procedure for maintaining centralized allotment control records for both vouchered and confidential funds through the use of automatic data processing.
4. Phase 4. --Project BED (Budget Evaluation and Development) The ultimate objective in the proper utilization of budget analyst manpower is to provide for machine preparation of budget documents. This phase has not been accomplished as of the beginning of FY 1968.



E. Financial Analysis Numbering System (FAN)

The Financial Analysis Numbering System (FAN) is a numbering procedure for summarizing various financial transactions, i. e., by activity, program, organizational unit, etc., and it is also used for fund control through the allotment control procedure. The FAN number serves as the connecting "link" for the computer to use to get from a master tape, on which is stored budget-classification type information, to its corresponding obligation and expenditure data. The budget classification data includes how the Agency's budget was programmed, i. e., by category, sub-category, element and sub-element, if any. Also, included on the master tape is geographic data such as the budget area and country, responsible station, and target area and country. Through the use of the master tape it will be possible to go to related obligation and expenditure data and mechanically prepare many of the budget schedules and summaries which are now prepared manually. The transition to machine budget schedules will require, however, basic data input by sub-object class and proper machine programs.

The identifying number for financial transactions (FAN number) is an eight digit number which provides the vehicle by which financial information stored on the financial data type can be carried with program information stored on the program master tape. The marriage of program and financial data is accomplished by the concurrent reading into memory of the master tape and the financial data tape files. These latter tapes containing expenditures, obligation and other data are sorted into FAN number sequence before processing. As the two files are read, the FAN numbers from each are internally compared, and when the FAN numbers from the program tape and the financial data tape are identical, the desired data is extracted from each tape file, consolidated in memory into another record, and then written to an output tape for further processing (i. e., report formatting, summarizing, and print out). It is important to recognize that there is no relationship between FAN numbers and specific machine addresses. In actual practice the budget and geographic data for no more than two FAN numbers are stored in machine memory at any one time. Because the FAN master tape is an independent file, changes in the activity and geographic data can be made freely without affecting the FAN numbering system. Thus a considerable amount of flexibility is built into the reporting system.

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The three currently issued reports which reflect the data accumulated under the FAN system are:

Report "A" -- Office detail report on budget country basis showing detail by FAN account with totals for each category, sub-category, element, and sub-element.

Report "B" -- Office summary report by category, sub-category, element, and sub-element.

Report "C" -- Major component summary report by category, sub-category, sub-element.

Each report includes budget targets (composed of obligation authority granted and property requisitioning authority), obligations and property encumbrances incurred against the target and budget balance. The FAN reports are issued monthly within eight working days after the close of the month thereby providing a running status report on resource usage compared to resources budgeted for all levels of management.

## VI. Financial Reporting

### A. Concept

The philosophy of the Agency has always been to hold each individual personally responsible for the proper use of funds in carrying out assigned tasks. To accomplish this broad objective a centralized accounting procedure is followed which records as much detail for reporting requirements for the various user levels of management as required. Operating officials are granted authority for obligating funds, and since this process eventually results in a disbursement of funds, these officials are required to furnish the necessary accounting details for each transaction to enable the Director of Finance to carry out his responsibilities for overall accountability of all Agency funds. This official is also responsible for designing the accounting and reporting procedures which not only provide necessary information for safeguarding Agency funds, but also provides requisite financial information for use by operating managers in controlling activities.

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The Director of PPB, in addition to his role of allocating authority for obligations and property requisitioning authority, developing the operating budget, and reviewing Agency programs for maximum effectiveness in terms of resources utilized, also maintains a management information data display, a product of the Agency's management information system, which is utilized to keep the DCI and his staff informed and assist them in the decision-making process.

The Inspector General, through the Agency Audit Staff, provides a continuous review of financial operations Agency-wide to ensure that established procedures are followed and disbursements are made in accordance with laws and regulations and that resources are used for authorized purposes only.

Because the policing of fund level integrity in many private and governmental organizations is maintained at the top of the organization, many formal reports are required. In this Agency it has been possible to maintain fund level integrity without the submission of many such formal reports to the top of the organization; integrity is maintained primarily through the concept of individual responsibility at lower organizational levels and the checks and balances built into the system of accountability for Agency funds.

B. Reports

Many financial reports in varying levels of detail corresponding to the level of management which receives them, are furnished on a continuous basis. Examples are: (1) the reports produced by the FAN System (Phase III of the Accounting, Financial Analysis, and Budgeting program previously mentioned in paragraph V. above); (2) the Financial Status Report furnished monthly by O/PPB to the Executive Director-Comptroller; and (3) the Annual Financial Report prepared by the Office of Finance.

1. The FAN System

The FAN System reports, sometimes referred to as the Uniform Centralized Allotment Control Reports, are designed to present arrangements of basic data to serve the needs of managers at various levels. These reports are:

a. Authorities Status Report - monthly

This report is designed for use by all levels of management for control of operating authorities. Information provided on the office level for each allotment and each property requisitioning authorization is:

- (1) The currently approved amount.
- (2) The cumulative obligations and value of requisitions or property encumbrances placed.

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(3) The cumulative expenditure in liquidation of obligations and the value of property issues against encumbrances.

(4) The cumulative unliquidated obligations and value of unfilled requisitions.

(5) The current balances available for obligation and property requisitioning.

The above information is also summarized by major component (Deputy Directorates, Independent Offices, etc.) and for the Agency. The report is scheduled for distribution the 8th work day after the close of each month.

b. Obligation Status Report - monthly

This report provides the basic accounting data for use at the operating level in monitoring the details of obligations and expenditures. It is designed to provide allottees with timely and sufficient detail so as to preclude the need for manual allotment control records. The following information is shown on the report:

(1) Cumulative balances of liquidated obligations and expenditures by object class brought forward from the previous report.

(2) Details of unliquidated obligations brought forward from the previous report and current period increases and decreases in obligations.

(3) Expenditures for the current reporting period by obligation reference number and by sub-object class.

(4) Balances of unliquidated obligations by obligation reference number.

This report is distributed the fifth work day after the close of the monthly reporting period. A special report is issued around the 20th of June as an aid in firming up obligations and encumbrances for the year.

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c. Program Management Reports - monthly

The description of these reports was covered in paragraph V. E. above in the discussion of the Financial Analysis Numbering System.

d. Other Miscellaneous Reports

2. Financial Status Report - monthly

One of the most succinct and useful reports furnished the Executive Director-Comptroller is the Financial Status Report. Furnished on a monthly basis this report gives the following information:

a. Operating Availability

Operating Availability is the net amount available for operations after modifications to the original regular appropriation for savings goals, releases from the Reserve, reimbursements, and supplementals if any. Also included is the total obligations incurred to date, and the unobligated balance remaining.

b. Reserve Status

The Reserve Status portrays the beginning balance, additions from the current year's appropriations, unobligated balances of prior years and current year's funds earmarked for such items as the Presidential savings. Also included are the approved releases by project from the Reserve.

c. Funds of Other Government Agencies

Included in this section is the amount of other Agency funds for which CIA is accountable.

d. Employment

This section gives the approved Agency ceiling, the average employment to date, permanent employees on duty, vacancies, and employees in process.

e. Financial

Included in this section is pertinent current financial statistics to which the Executive Director may wish to direct management attention. For example, a recent 30 June report contained statistics on the BOB personnel compensation target and how closely the Agency adhered to this target, the status of Agency overtime control, data on the cost-savings program for the year and how these savings were utilized, and finally a status report on the Agency's FY 1967 gold flow.

VII. Authorization and Accountability Control Organizational Units

The organizational units responsible for authorization and accountability control of Agency funds are the Office of Planning, Programming, and Budgeting (O/PPB), the Office of Finance (OF), and the Office of Computer Services which provides support to the former two offices in the discharge of their responsibility by providing advice, service, and technical expertise in the development of improved applications of automatic data processing applications for management information purposes. However, since the Office of Computer Services' role is of an indirect nature, only the primary organizational units responsible for authorization and accountability control are described in the following paragraphs.

A. The Office of Planning, Programming, and Budgeting (O/PPB)

The Office of Planning, Programming, and Budgeting is primarily responsible for administering the authorization control system for use of Agency resources. This function is accomplished by the issuance of allotment and property requisitioning authority in connection with the annual Planning, Programming, and Budgeting cycle. To discharge its responsibility, the O/PPB has a Budget Division, a Planning and Programming Division, a Data System Development Staff; an Information Processing Staff, and a Coordination and Control Staff. This latter staff operates at the Office Director level and maintains overall control of Agency fund availability. The Budget Division is responsible for the formulation and execution of the Agency budget and the review and evaluation of certain programs and projects that require Executive Director-Comptroller approval. The Planning and Programming Division is responsible for developing procedures and providing guidance and assistance in the Agency planning processes, and for the continuous review, analysis, and evaluation of Agency programs and activities. The Information Processing Staff assists the Executive Director-Comptroller in formulating policy direction for all Agency information processing activities utilizing Automatic Data Processing equipment. The Data Systems Development Staff develops and monitors the operations of an Agency Program Management Information System and prepares reports and analyses of financial trends and management information needs.

B. The Office of Finance

Accountability control in the Agency is primarily the responsibility of the Office of Finance. The discharge of this responsibility includes designing, maintaining, and conducting the internal audit of financial procedures, systems, reports and accounts necessary for the control of

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Agency funds and assets. The development and administration of the over-all financial program of the Agency is conducted by a Policy and Planning Staff, an Accounts Division, a Monetary Division, a Compensation and Tax Division, a Certification and Liaison Division, a Proprietary Systems and Accounts Division, and Industrial Contract Audit Division, and special staff assistants for liaison and automatic data processing.

The Accounts Division is responsible for maintaining and operating the Agency central accounting system and monitoring accounting operations of field installations to ensure proper records of financial operations and control of assets and liabilities. In addition to its conservatorship function for Agency assets this Division is also responsible for devising and issuing financial management reports.

The Certification and Liaison Division is responsible for the direction and coordination of audit and certification of all claims, vouchers, accountings, and requests for advances processed at Headquarters. Included in this Division's responsibility is the review and approval of administrative plans and fiscal annexes for subsidy projects.

The Industrial Contract Audit Division is responsible for the audit of Agency industrial contracts, performance of contractor accounting systems surveys, and cost analyses of contractor proposals prior to contract execution.

The Monetary Division has the responsibility for developing and establishing requirements for the protection and safekeeping of Agency funds

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The Compensation and Tax Division conducts the overt and covert payroll activities for Agency personnel. In addition to its normal payroll type activities, the Compensation and Tax Division maintains individual retirement records and accounting controls for the Civil Service Retirement and Disability System and the CIA Retirement and Disability System. It also reports tax transactions to appropriate tax authorities and issues W-2 forms for individual employee earnings.

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The Proprietary Systems and Accounts Division establishes and technically supervises necessary accounting systems, financial reporting, funding procedures and fiscal controls for proprietary projects and proprietary investment projects. This Division has responsibility for the administrative audit and certification of funding requests and accountings from entities, and also manages an audit firm which audits those entities not examined by the Industrial Contract Audit Division.

### VIII. Summary

Because of the nature of the Agency's mission wide latitude in the use of and final accountability for, public monies were granted to the Director by Public Law 110 (see details in paragraph II, page 2). In spite of this latitude and the fact that much of the Agency's operations are not subject to General Accounting Office audit, the Agency has always scrupulously observed generally accepted accounting and internal control principles. Observance of these principles is prompted, not only by the need to avoid abuse of P. L. 110 and subsequent loss of the flexibility provided by that law, but also historical studies show that uncontrolled and unwise use of money invariably results in jeopardy to any intelligence mission. Authorization control and accountability control provide the means by which the Director can insure that the wisest use is made of the Agency's resources. The heart of these two control systems lies in the concept of individual responsibility on the part of each Agency employee, and an adequate management information system which provides the requisite and timely data for the Director to make the wisest possible decision on the potential use of the Agency's resources.

The Office of Planning, Programming, and Budgeting and the Office of Finance provide the Director with the necessary authorization and accountability control, and management information systems to enable him to discharge his responsibility in accordance with the provisions of law.

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